HOUSE BILL REPORT
ESSB 5576

As Reported by House Committee On:
Finance

Title: An act relating to providing a local government option for the funding of essential affordable housing programs.

Brief Description: Providing a local government option for the funding of essential affordable housing programs.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Lovelett, Alvarado, Saldaña, Bateman, Salomon, Valdez, Hasegawa, Nobles, Wilson, C. and Ramos).

Brief History:

Committee Activity:

Finance: 3/18/25, 3/27/25 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended by Committee)

- Allows cities, counties, and towns to impose a short-term rental tax of up to 4 percent.
- Requires that revenues from the short-term rental tax be used for various housing-related services and facilities.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 10 members: Representatives Berg, Chair; Street, Vice Chair; Mena, Parshley, Ramel, Santos, Scott, Springer, Walen and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell and Chase.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Without recommendation. Signed by 1 member: Representative Penner.

Staff: Rachelle Harris (786-7137).

Background:

Lodging Taxes.

State-Shared Lodging Tax.

A city or county legislative authority may impose a 2 percent special excise tax on the sale or charge made for the furnishing of lodging at hotels, motels, and short-term rentals. This tax is credited against the state sales tax that would be imposed on the sale of lodging. In most cases, a city's lodging tax is credited against the county's lodging tax, so that the rate is 2 percent countywide; however, the county will not receive revenues from the city's jurisdictions. There are two instances where statutory exemptions allow a city and a county to both impose the 2 percent lodging tax, thus reducing the state sales tax on lodging within the city and county to 2.5 percent.

Outside of King County, revenues from the tax can be used solely for the purpose of paying for tourism promotion or for the acquisition or operation of tourism-related facilities. In King County, the revenue must be divided between: affordable workforce housing; housing, facilities, and services for homeless youth; museums and the arts; and capital or operating programs that promote tourism.

Special Lodging Tax.

An additional excise tax can be imposed on the sale of lodging by a county or most cities at a rate of up to 2 percent. Seattle can impose the tax at a rate of up to 4 percent. This tax is not a credit against the state sales tax and is instead paid by the purchaser. Cities within Snohomish County and Cowlitz County cannot impose the tax because the counties are imposing a previously authorized 4 percent lodging tax. Certain other counties and cities using tax authority that has since been changed are also authorized to continue to collect the tax at the previous, higher rate.

Convention Center Lodging Tax.

A public facilities district in a county with a population of 1.5 million or more can impose a convention center lodging tax on the sale of lodging in the district, including short-term rentals. Hostels and temporary medical housing, and lodging facilities with fewer than 60 units when located in a town with a population of less than 300 are exempt from the tax.

The tax cannot exceed 7 percent within the boundaries of the largest city within the district, and 2.8 percent in the rest of the district. An additional tax of 2 percent can be imposed within the boundaries of the largest city within the district. This additional tax is a credit against state sales taxes due.

The imposition of the tax on lodging, when taken together with all other taxes, including state and local sales taxes, public facilities district sales taxes, transit district sales taxes, and the convention center lodging tax, cannot exceed a total rate of 12 percent outside of Seattle. In Seattle, the combined taxes cannot exceed 15.2 percent.

Short-Term Rentals and Short-Term Rental Platforms.
A short-term rental (STR) is a lodging use, outside of a hotel, motel, or bed and breakfast, in which a dwelling unit is offered to a guest for a fee, for fewer than 30 consecutive nights, and on an STR platform. An exemption applies for dwelling units in which the owner resides for at least six months during the calendar year and in which fewer than three rooms at a time are rented. An STR platform is a company that financially benefits from providing a means through which owners can offer dwelling units for an STR.

Summary of Amended Bill:

Beginning April 1, 2026, a county, city, or town can impose a tax on the sale of lodging in STRs that is facilitated through an STR platform. The rate of the STR tax cannot exceed 4 percent and must be imposed in increments of 1 percent. The Department of Revenue must collect the tax on behalf of the local government imposing the tax at no cost to the local government. A county must allow a credit against the county STR tax for the amount of STR tax imposed by any city or town on the same taxable event. The tax does not count toward the combined rate of other lodging taxes.

The legislative body of the taxing authority must adopt a resolution of intent to adopt legislation authorizing the STR tax before imposing it. Adoption of the resolution and the legislation requires a simple majority approval of the enacting legislative authority. The local taxing authority may exclude from the tax STRs that are located in common interest communities approved as a resort, second home, or vacation community, as well as those that are exempt from local ordinances that regulate and license STRs and vacation lodging.

Revenues from the tax are deposited into a newly created Essential Affordable Housing Local Assistance Account. Revenues must be used for:
- acquiring, rehabilitating, or constructing affordable, workforce, or supportive housing;
- funding the operations and maintenance costs of affordable, workforce, or supportive housing services;
- providing rental assistance; or
- funding the operations of organizations dedicated to providing services and assistance related to attaining and maintaining housing.

The enacting taxing authority can retain up to 15 percent of the revenues for the direct and indirect costs to administer services and programs. Cities and counties can enter into interlocal agreements to jointly undertake projects.

A county or city imposing the tax is required to publish an annual report detailing how tax revenues were spent in the prior year.

The Essential Affordable Housing Local Assistance Account is created in the state treasury. Moneys in the account can be used only for distributions to counties, cities, and towns on a monthly basis, and for making refunds of short term rental taxes imposed.

Amended Bill Compared to Engrossed Substitute Bill:

The amended bill allows the local taxing authority to have the option of excluding from the tax STRs that are located in common interest communities approved as a resort, second home, or vacation community, as well as those that are exempt from local ordinances that regulate and license STRs and vacation lodging.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) We want to have a 4 percent tax on short rentals. Building housing is sometimes doable, but this is crafted for flexible use of revenues in order to keep the lights on. Owner-occupancy exemption is in the bill. We brought the rate down compared to other bills. Communities that have lots of STRs often lack long term rentals. Local resources can help with issues like vacancy rates. Leavenworth is a popular place, which means residents are competing with each other as well as tourism. Nearly 40 percent of housing stock is second homes, which is unsustainable. We need a funding stream to assist permanent residents. Our strong tourism economy can be used to help out. This is discretionary money that can assist local governments. Port Angeles has been doing a lot to improve housing development and supply, but we've been losing housing to Airbnbs.

Expedia Group supports this bill because small businesses provide unique value to communities, and this bill provides an optional limited tax to the local government tool kit. This bill supports our small cities. This bill provides local flexibility in use of funds to be appropriate for the local community needs. Short-term rentals drive people out of housing in communities across the state. The opposition from Airbnb creates a false choice and is misleading. This is not a vacation tax, this is allowing communities to respond to people being pushed out of communities. This is a great solution that does not regulate STRs but imposes a tax that guests will gladly pay in order to not spend money at restaurants. Every

STR pushes a local outside their community. We are in crisis regarding housing, this bill provides a balanced approach.

(Opposed) Short-term rental operators do not want a tax on travelers, which are often parents visiting students or families visiting cancer patients undergoing treatment. Short-term rental owners rent their homes so they can keep their homes. Taxes cut into their bottom line. This bill will not solve the affordable housing problem, it will merely put a burden on travelers. This proposal is misguided and will not result in affordable housing. Most users of vacation rentals are Washingtonians. Most cities and even counties are small, and these jurisdictions will not be able to provide affordable housing with revenues generated. People experiencing housing disruption often seek STRs for stability in the face of fires or other disasters. Hotels don't take pets, so short term rentals allow people to maintain connection with their pets. The additional tax would be a burden on locals. Most STR hosts are doing so to offset higher costs of living.

Mounting political tensions are tough on Point Roberts, as is the weak Canadian dollar. This bill will further harm STR operators in Point Roberts. Short-term rental is necessary because the accessory dwelling unit does not have a kitchen, and this bill does not guarantee me an exemption as a primary residence. Short-term rentals provide long term homes for elderly parents, and this bill will undermine the ability for lower middle class people to make their way and make ends meet. Short-term rentals employ locals to maintain the homes, including for cleaning and maintenance. Short-term rentals operating in commercial zones provide maximum benefit to the community, so those zones should be exempted from the tax.

(Other) Local governments should have flexibility to exempt planned vacation communities. Seabrook is a unique vacation destination built specifically for vacationing, which does not trade off with existing housing stock. The property is zoned as resort and residential, and has always been designed to meet a growing demand for coastal lodging. We’ve been building employee housing via ADUs that are on site.

Persons Testifying: (In support) Senator Liz Lovelett, prime sponsor; Carl Florea, City of Leavenworth; Councilmember Lindsey Schromen-Wawrin; Judy Lightfoot; Caitlin Sullivan; Laurel Cripe; Caitlin Sullivan; Barbara Rossing, Faith Lutheran Church; Kurt Peterson; Brent Ludeman, Expedia Group; Sarah Dickmeyer, Plymouth Housing; Carl Schroeder, Association of Washington Cities; and Zeke Reister, resident of Leavenworth.

(Opposed) Richard Moser, Washington Hosts Collaborative Alliance; Allison Moser, Washington Hosts Collaborative Alliance; Carolyn Allen, Washington Hosts Collaborative Alliance; Rose Feliciano, TechNet; Leslie Hubbard; Ken Ploeger, Seattle Airbnb Hosts Group; Steve Carr; Zaida Edmundson; Heather Cunningham; Sean Lynn, Love Leavenworth Vacation Rentals; James McQuillan; Brett Faulds; Joseph Hunt; Suzy Oubre Loyd, Self Employed; John Leaver; Michelle Boyle; John Leaver; Colin Campbell; and Warren Newton.

(Other) Troy Nichols, Seabrook Land Company LLC; and Jeff Gundersen, CFO and COO, Seabrook Holding Company.

Persons Signed In To Testify But Not Testifying: Leslie Hubbard.